

# **Beaver Island Community School**

## FINANCIAL STATEMENTS AND REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

June 30, 2017



# CONTENTS

	<u>Page</u>
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	i
REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS.....	2
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION.....	5
STATEMENT OF ACTIVITIES.....	6
BALANCE SHEET - GOVERNMENTAL FUNDS.....	7
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS.....	8
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES.....	9
STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS.....	10
NOTES TO FINANCIAL STATEMENTS.....	11
REQUIRED SUPPLEMENTARY INFORMATION	
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND.....	28
SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY.....	29
SCHEDULE OF SCHOOL DISTRICT'S PENSION CONTRIBUTIONS.....	29
COMBINING FINANCIAL STATEMENTS OF NON-MAJOR GOVERNMENTAL FUNDS	
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS.....	31
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS.....	32
INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS.....	33



**Beaver Island Community School**  
**37895 King's Highway**  
**Beaver Island, MI 49782**  
**231.448.2744 phone 231.448.2919 fax**  
[info@beaverisland.k12.mi.us](mailto:info@beaverisland.k12.mi.us)

## **Management's Discussion and Analysis**

### **Overview of the Basic Financial Statements**

Beaver Island Community School's (the "School") basic financial statements include government-wide statements, fund financial statements and notes to the financial statements. This report also contains required and other supplemental information in addition to the basic financial statements.

### **Government-wide Financial Statements**

The government-wide financial statements report information on all of the School's non-fiduciary funds. The government-wide statements are designed to provide readers with a broad overview of the School's finances, in a manner similar to a private-sector business.

The Statement of Net Position displays all of the School's assets and liabilities, with the difference reported as net position. All long-term assets and debt obligations are presented.

The Statement of Activities focuses on the gross and net cost of the various functions within the School (instruction, support services, etc...), which are supported by the School's general revenues (property taxes, unrestricted State aid, etc...).

### **Fund Financial Statements**

The fund financial statements report on the government funds, with an emphasis on major funds. Major funds are determined by the level of activity within the various funds. The focus of the fund financial statements is on the sources and uses of funds during the current year.

The fiduciary fund is also presented separately from the governmental funds, due to the fact that these assets do not represent assets of the School. These assets are not presented as part of the government-wide financial statements.

Beaver Island Community School maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, 2007 General Obligation Bond Fund, and 2016 Refunding Bond Fund, which are considered major funds. Data from the other two governmental funds are combined into a single, non-major governmental funds column. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the Other Supplemental Information section of this report.

## Financial Highlights

The overall conditions of all funds remain very strong for the School. All goals related to financial activities have been met in the past year. If current revenue and expenditure patterns can be maintained, the resources for the following year will be available to meet the School's financial needs.

The liabilities and deferred inflows of resources of the School exceeded its assets and deferred outflows of resources at the close of the recent fiscal year by \$.36 million (net position).

The School's total net position has increased by \$42 thousand this fiscal year.

At the end of the current fiscal year, the aggregated fund balance for the School's operational funds was \$716,820.

## Government-Wide Financial Analysis

Table 1 provides a summary of the School's net position as of June 30, 2017 and 2016:

	<b>Governmental Activities</b>	
	<b>(in millions)</b>	
	<b>2017</b>	<b>2016</b>
<b>Assets</b>		
Current assets	\$ 1.09	\$ 1.08
Non-current assets	4.31	4.44
Total assets	5.40	5.52
Deferred outflows of resources	.42	.19
<b>Liabilities</b>		
Current liabilities	.57	.56
Non-current liabilities	5.42	5.29
Total liabilities	5.99	5.85
Deferred inflows of resources	.19	.26
<b>Net position</b>		
Invested in capital assets, net of related debt	1.28	1.35
Restricted	.11	.02
Unrestricted (deficit)	(1.75)	(1.78)
<b>Total net position</b>	<b>\$ (.36)</b>	<b>\$ (.40)</b>

The School currently reports positive balances in each category of net position, except unrestricted net position which has a deficit balance.

Operations for the School as a whole are presented in the Statement of Activities. The following summary shows the changes in the net position for the fiscal years 2017 and 2016.

<b><u>Governmental Activities</u></b>		
<b>(in millions)</b>		
	<b><u>2017</u></b>	<b><u>2016</u></b>
<b>Revenue</b>		
Program revenue		
Charges for services	\$ .002	\$ .003
Operating grants and contributions	.557	.311
General revenue		
Property taxes	1.672	1.648
State school aid	.159	.156
Other	.031	.027
Total revenue	<u>2.421</u>	<u>2.145</u>
<b>Functions/program expenses</b>		
Instruction	1.417	1.420
Supporting services	.894	.805
Community services and other	.004	.001
Food service	.016	.024
Interest on long-term debt	.049	.130
Total expenses	<u>2.380</u>	<u>2.380</u>
<b>Increase (decrease) in net position</b>	<u>\$ .041</u>	<u>\$ (.239)</u>

As recorded above, the School recorded \$2.380 million of expenses. The majority of the School's activities were funded by property taxes, grants and contributions.

The School experienced an increase in net position of \$.041 million. In the fund financial statements debit and capital outlay payments represent expenditures of available spendable resources, however in the government wide statements as noted above they are not current expenses. Depreciation is used to ratably expense these costs over the estimated life to be benefited by the School.

### **Fund Financial Analysis**

The June 30, 2017 General Fund balance decreased by \$31,791 during the fiscal year. The fund balance of \$589,613 is approximately 28% of reported expenditures over the same fiscal year. The School has a goal of maintaining a 15% fund balance.

### **General Fund Budgetary Highlights**

During the 2016-2017 school year, the School recognized unearned CTE Support service millage funds of \$66,000, while also using the current year allocation of \$66,000 for reinstatement of the School's counseling position. The CTE classes also used \$20,953 of the CTE Instructional funds to pay for student career exploration and participation in national competition. The School received an additional \$78,781 in special education funding for the increase of special education expenditures in fiscal year 2016.

## Capital Assets

At June 30, 2017, the School had \$4,310,540 invested in capital assets. The following table summarizes the capital asset activity for the year.

	<u>2017</u>	<u>2016</u>
Capital assets not being depreciated		
Land	\$ 92,228	\$ 92,228
Capital assets being depreciated		
Building and improvements	5,503,993	5,503,993
Furniture and fixtures	93,406	93,406
Vehicles	17,522	17,522
Equipment	168,239	168,239
Total capital	5,783,160	5,783,160
Less accumulated depreciation	<u>(1,564,848)</u>	<u>(1,426,753)</u>
<b>Total capital assets, net</b>	<u><u>\$ 4,310,540</u></u>	<u><u>\$ 4,448,635</u></u>

## Long-Term Debt

At June 30, 2017, the School had \$3,166,139 in long-term debt. The following table summarizes the long-term debt activity for the year.

	<u>2017</u>	<u>2016</u>
General obligation bonds	\$ 3,110,000	\$ 3,120,000
Discount on bonds payable	-	(28,926)
Premium on bonds payable	56,139	-
<b>Total long-term debt</b>	<u><u>\$ 3,166,139</u></u>	<u><u>\$ 3,091,074</u></u>

## Economic Factors

For the upcoming school year, local and State revenues are expected to remain relatively steady, expenses will continue to rise at the cost of living. The School will have a change in leadership as the newly hired Superintendent begins in July 2017.

## Financial Contact

The School's financial statements are designed to present users with a general overview of the School's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Business Office of Beaver Island Community Schools.



DENNIS, GARTLAND & NIERGARTH

Certified Public Accountants  
Business Advisors

---

Thomas E. Gartland, Retired  
Brad P. Niergarth, CPA  
James G. Shumate, CPA  
Robert C. Thompson, CPA  
Michael D. Shaw, CPA  
Mary F. Krantz, CPA  
Shelly K. Bedford, CPA  
Heidi M. Wendel, CPA  
Shelly A. Ashmore, CPA  
James M. Taylor, CPA

## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Education  
Beaver Island Community School

### **Report on Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the *Beaver Island Community School* (the "School District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the School District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Beaver Island Community School as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages *i* through *iv*, budgetary comparison information on page 28 and pension contribution schedule on page 29, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School District's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2017, on our consideration of the School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control over financial reporting and compliance.

*Dennis, Gartland & Niergarth*

September 18, 2017

# Beaver Island Community School

## STATEMENT OF NET POSITION

June 30, 2017

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current assets	
Cash	\$ 1,015,700
Accounts receivable	4
Due from other governments	68,730
Prepaid expenses	<u>9,707</u>
Total current assets	1,094,141
Capital assets, net of accumulated depreciation	<u>4,310,540</u>
Total assets	<u>5,404,681</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred loss on debt refunding	128,276
Deferred outflow for pension obligation	<u>289,398</u>
Total deferred outflows of resources	<u>417,674</u>
Total assets and deferred outflows of resources	<u>\$ 5,822,355</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	
<b>LIABILITIES</b>	
Current liabilities	
Accounts payable	\$ 4,981
Accrued salaries and related expenses	174,444
Accrued interest	10,983
Unearned revenue	194,520
Current portion of long-term debt	178,743
Due to other agencies	<u>3,376</u>
Total current liabilities	567,047
Non-current portion of long-term debt	2,987,396
Net pension liability	<u>2,437,108</u>
Total liabilities	<u>5,991,551</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Deferred inflow of resources for pension obligation	<u>191,307</u>
<b>NET POSITION</b>	
Invested in capital assets, net of related debt	1,280,881
Restricted for	
Debt service	113,788
Food service	2,436
Unrestricted (deficit)	<u>(1,757,608)</u>
Total net position	<u>(360,503)</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 5,822,355</u>

The accompanying notes are an integral part of these financial statements.

# Beaver Island Community School

## STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

Functions/Program	Expenses	Program Revenues		Net Revenue (Expense) and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental activities				
Instruction	\$ 1,417,335	\$ -	\$ 275,244	\$ (1,142,091)
Supporting services	894,234	-	273,955	(620,279)
Community services	715	-	-	(715)
Food service	16,649	2,160	8,023	(6,466)
Other	2,409	-	-	(2,409)
Interest on long-term debt	49,007	-	-	(49,007)
Total governmental activities	\$ 2,380,349	\$ 2,160	\$ 557,222	(1,820,967)
General purpose revenues				
Property taxes				
Levied for general purposes				1,385,073
Levied for debt service				286,860
State school aid - unrestricted				159,117
Unrestricted investment earnings				1,576
Other				29,855
Total general purpose revenues				1,862,481
Change in net position				41,514
Net position, beginning of year				(402,017)
Net position, end of year				\$ (360,503)

The accompanying notes are an integral part of these financial statements.

# Beaver Island Community School

## BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2017

	General Fund	2007 General Obligation Bond Fund	2016 Refunding Bond Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents	\$ 888,684	\$ -	\$ 124,771	\$ 2,245	\$ 1,015,700
Accounts receivable	4	-	-	-	4
Due from other governments	68,539	-	-	191	68,730
Prepaid expenditures	9,707	-	-	-	9,707
<b>Total assets</b>	<b>\$ 966,934</b>	<b>\$ -</b>	<b>\$ 124,771</b>	<b>\$ 2,436</b>	<b>\$ 1,094,141</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 4,981	\$ -	\$ -	\$ -	\$ 4,981
Accrued salaries and related expenditures	174,444	-	-	-	174,444
Due to other funds	3,376	-	-	-	3,376
Unearned revenues	194,520	-	-	-	194,520
<b>Total liabilities</b>	<b>377,321</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>377,321</b>
<b>FUND BALANCES</b>					
Nonspendable	9,707	-	-	-	9,707
Restricted:					
Debt service	-	-	124,771	-	124,771
Food service	-	-	-	2,436	2,436
Committed:					
Building and land improvements	86,000	-	-	-	86,000
Potential employee leave	26,000	-	-	-	26,000
Subsequent year's expenditures	115,962	-	-	-	115,962
Assigned	7,500	-	-	-	7,500
Unassigned	344,444	-	-	-	344,444
<b>Total fund balances</b>	<b>589,613</b>	<b>-</b>	<b>124,771</b>	<b>2,436</b>	<b>716,820</b>
<b>Total liabilities and fund balances</b>	<b>\$ 966,934</b>	<b>\$ -</b>	<b>\$ 124,771</b>	<b>\$ 2,436</b>	

### Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Position

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$5,875,388 and the accumulated depreciation is \$1,564,848. 4,310,540

Deferred outflows of resources are not a financial resource and, therefore, are not reported as an asset in governmental funds. Deferred outflows of resources at year-end consist of:

Pension obligation	289,398
Deferred loss on refunding	128,276

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	(3,110,000)
Premium on bonds payable	(56,139)
Accrued interest payable	(10,983)
Net pension liability	(2,437,108)

Deferred inflow of resources for net pension obligation	(191,307)
---	-----------

Total net position - governmental activities	<b>\$ (360,503)</b>
--	---------------------

The accompanying notes are an integral part of these financial statements.

## Beaver Island Community School

### STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2017

	General Fund	2007 General Obligation Bond Fund	2016 Refunding Bond Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Revenues</b>					
Local sources					
Property taxes	\$ 1,385,073	\$ 286,860	\$ -	\$ -	\$ 1,671,933
Charges for services	-	-	-	2,188	2,188
Interest	1,406	169	-	1	1,576
Other local revenue	299,372	4,411	-	-	303,783
State sources	369,416	2,358	-	774	372,548
Federal sources	62,586	-	-	7,249	69,835
Total revenues	<u>2,117,853</u>	<u>293,798</u>	<u>-</u>	<u>10,212</u>	<u>2,421,863</u>
<b>Expenditures</b>					
Instruction	1,336,445	-	-	-	1,336,445
Supporting services	780,078	-	-	-	780,078
Community services	715	-	-	-	715
Food service	-	-	-	16,649	16,649
Debt service					
Principal	-	135,000	-	-	135,000
Interest	-	5,063	53,819	-	58,882
Other	-	788	-	-	788
Other	-	-	-	1,621	1,621
Capital outlays	26,632	-	-	-	26,632
Total expenditures	<u>2,143,870</u>	<u>140,851</u>	<u>53,819</u>	<u>18,270</u>	<u>2,356,810</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(26,017)</u>	<u>152,947</u>	<u>(53,819)</u>	<u>(8,058)</u>	<u>65,053</u>
<b>Other financing sources (uses)</b>					
Operating transfers in	-	-	178,590	5,774	184,364
Operating transfers out	(5,774)	(178,590)	-	-	(184,364)
Proceeds from refunding bonds	-	3,169,882	-	-	3,169,882
Bond issuance costs	-	(89,980)	-	-	(89,980)
Payment to refunded bond escrow agent	-	(3,092,902)	-	-	(3,092,902)
Total other financing sources (uses)	<u>(5,774)</u>	<u>(191,590)</u>	<u>178,590</u>	<u>5,774</u>	<u>(13,000)</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING SOURCES (USES)</b>	<u>(31,791)</u>	<u>(38,643)</u>	<u>124,771</u>	<u>(2,284)</u>	<u>52,053</u>
Fund balance, beginning of year	621,404	38,643	-	4,720	664,767
Fund balance, end of year	<u>\$ 589,613</u>	<u>\$ -</u>	<u>\$ 124,771</u>	<u>\$ 2,436</u>	<u>\$ 716,820</u>

The accompanying notes are an integral part of these financial statements.

## Beaver Island Community School

### RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES WITH THE DISTRICT-WIDE STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

<b>Total Net Change in Fund Balance - Governmental Funds</b>	<b>\$</b>	<b>52,053</b>
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		(138,095)
Change in deferred outflows of resources for pension obligation.		100,938
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities.		135,000
Bond proceeds provide current financial resources to governmental funds; however, issuing debt increase long-term liabilities in the statement of net position. In the current period, proceeds were received from:		
Bonds issued, including a bond premium of \$59,882.		(3,169,882)
Bond proceeds placed in escrow are reported in the governmental funds as a use of funding. In the statement of activities they are not reported as used.		2,985,000
The difference between the reacquisition price and net carrying amount of deferred debt:		
Deferred loss on refunding	\$ 136,828	
Amortization of deferred loss on refunding	<u>(8,552)</u>	128,276
Governmental funds report debt premiums and discounts as other financing sources (uses) or expenditures. However, in the statement of net position, these are reported as additions or deductions from long-term debt. These are allocated over the period the debt is outstanding in the statement of activities and are reported as interest.		
Elimination of unamortized discount on defeased debt	(28,926)	
Amortization of bond premium	<u>3,743</u>	(25,183)
Accrued interest expense on long-term debt is reported in the district-wide statement of activities, but does not require the use of current financial resources. Therefore, accrued interest expense is not reported as an expenditure in government funds.		9,875
Increase in net pension liability		(105,571)
Change in deferred inflows of resources for pension obligation.		<u>69,103</u>
<b>Changes in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u><u>41,514</u></u></b>

The accompanying notes are an integral part of these financial statements.

# Beaver Island Community School

## STATEMENT OF FIDUCIARY NET POSITION - AGENCY FUNDS

June 30, 2017

	<u>Student Activity Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 6,826
Due from other funds	<u>3,376</u>
Total assets	<u><u>\$ 10,202</u></u>
<b>LIABILITIES</b>	
Due to student groups	<u><u>\$ 10,202</u></u>

# Beaver Island Community School

## NOTES TO FINANCIAL STATEMENTS

### NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *Introduction*

Beaver Island Community School (the "School District") operates under a Board-Superintendent form of government and provides education services to Beaver Island residents. The accounting policies of the School District conform to accounting principles generally accepted in the United States of America ("GAAP") as applicable to governmental units.

The accounting and reporting framework and the more significant accounting principles and practices of Beaver Island Community School are discussed in subsequent sections of this note. The remainder of the notes are organized to provide explanations, including required disclosures, of the School District's financial activities for the fiscal year ended June 30, 2017.

#### *The Financial Reporting Entity*

Beaver Island Community School is a special purpose government and considered to be a primary government because it has separately elected governing body, is legally separate and is fiscally independent of other state and local governments. The financial reporting entity of Beaver Island Community School includes the School District as the primary government and its component units; i.e., legally separate organizations for which the primary government is financially accountable and any other organizations which management has determined, based on the nature and significance of their relationship with the School District, must be included to prevent the School District's financial statements from being misleading. Based on criteria established in Governmental Accounting Standards Board ("GASB") Statement No. 61, management has not identified any component units. Student, parent and teacher organizations are not included, except to the extent that the School District holds assets in the capacity of an agent.

#### *District-Wide and Fund Financial Statements*

##### *District-Wide Financial Statements*

The statement of net position and statement of activities display information about the School District as a whole, except for its fiduciary activities. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and School District general revenues.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the School District's services; and (2) operating grants and contributions which finance annual operating activities including restricted investment income. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.



## NOTES TO FINANCIAL STATEMENTS - Continued

### *Fund Financial Statements*

The balance sheet and statement of revenues, expenditures and changes in fund balances (i.e., fund financial statements) for the School District's governmental funds are presented after the District-wide statements. These statements display information about major funds individually and non-major funds in the aggregate for governmental funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

### ***Measurement Focus, Basis of Accounting and Financial Statement Presentation***

The district-wide statements report using the economic resource measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). Reimbursements are reported as reductions to expenses. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The School District considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include property taxes, intergovernmental revenues and investment income. In general, other revenues are recognized when cash is received.

### ***Fund Types and Major Funds***

#### *Activities in Major Funds*

The *General Fund* is the general operating fund of the School District. It is used to account for all financial resources except those accounted for in another fund.

The *2007 General Obligation Bond Fund* accounts for principal and interest payments on the bonds used to finance various construction projects in the School District.

The *2016 Refunding Bonds Fund* accounts for principal and interest payments on the refunding bonds used to refinance the general obligation bonds.

#### *Other Governmental Funds*

The *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted or Board committed to expenditures for special purposes. The Food Service Fund is accounted for as Special Revenue Funds.

## NOTES TO FINANCIAL STATEMENTS - Continued

The *Sinking Fund* was approved by the voters for a period of five years, fiscal 2003 through 2007 to levy an amount not to exceed 1 mill on all property for constructing, remodeling and repairing school buildings, and developing and improving sites. The fund balance in the Sinking Fund is restricted for capital projects.

### *Fiduciary Funds*

The *Agency Fund* accounts for assets held by the School District as an agent for individuals, private organizations, other governments or other funds. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The Student Activity Fund is an Agency Fund.

### *Cash and Cash Equivalents*

The School District's reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

### *Capital Assets*

Capital assets are recorded at cost or, if donated, the fair value at the time of donation. Capital assets are depreciated over their estimated useful lives ranging from 3 to 50 years. The School District generally capitalizes assets with a cost of \$5,000 or more as purchase and construction outlays occur. No depreciation is recorded on land. Expenditures for major renewals and betterments that extend the useful lives of the capital assets are capitalized. Expenditures for maintenance and repairs are charged to current expenditures as incurred. Depreciation is computed using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts and the resulting gain or loss is recorded in operations.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	20-50 years
Furniture and other equipment	3-7 years
Vehicles	7 years

### *Long-Term Debt and Bond Discounts/Premiums*

In the district-wide financial statements, outstanding debt is reported as a liability. Bond discounts or premiums and gains or losses on bond refundings are capitalized and amortized over the terms of the respective bonds using the straight-line method, which approximates the effective interest method. Bond issuance costs are expensed as incurred.

In the fund financial statements, bond premiums and discounts, as well as bond issuance costs are recognized during the period in which the bonds were issued. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

***Fund Equity***

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance cannot be spent because of its form. Restricted fund balance has limitations imposed by creditors, grantors or contributors, or by enabling legislation or constitutional provisions. Committed fund balance is a limitation imposed by the School Board through approval of resolutions. Assigned fund balances is a limitation imposed by the Superintendent as a designee of the School Board. Unassigned fund balance in the General Fund is the net resources in excess of what can be properly classified in one of the above four categories. Negative unassigned fund balance in other governmental funds represents excess expenditures incurred over the amounts restricted, committed or assigned to those purposes.

When both restricted and unrestricted fund balances are available for use, it is the School District's policy to use restricted fund balance first, then unrestricted fund balance. Furthermore, committed fund balances are reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

It is the School District's policy to maintain a minimum fund balance of at least 15% of the General Fund's annual operating expenditures.

***Program Revenues***

Program revenues derive directly from the program itself or from outside parties for the restricted use in a particular program. On the statement of activities, program revenues reduce the net cost of the various functions to reflect the amount which is financed from the School District's general revenues.

The School District's most significant program revenues are Isolated District, 21st Century, Special Education Grants, Vocational Education Grants and School Lunch Programs, which are reported as operating grants and contributions.

***Allocation of Expenses***

The School District reports each function's direct expenses, those that are specifically associated with a service, program or department and, thus, are clearly identifiable to a particular function.

The School District has elected to not allocate indirect expenses.

***Pension Plan***

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Michigan Public Employees Retirement System ("MPERS") and additions to/deductions from MPERS fiduciary net position have been determined on the same basis as they are reported by MPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

***Use of Estimates in the Preparation of Financial Statements***

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

***Subsequent Events***

The School District has evaluated events and transactions for potential recognition and disclosure through September 18, 2017, the date the financial statements were available to be issued.

**NOTE B - BUDGETARY POLICY AND PRACTICE**

The School District has adopted these procedures in establishing the budgets as reflected in the financial statements.

1. As early as possible in the preceding fiscal year (generally in the spring), the Superintendent formulates preliminary budgets for the coming year, which are submitted to the Board of Education for their review.
2. A public hearing is held prior to June 30 on the proposed budgets to obtain taxpayer comments.
3. The Board of Education reviews the proposed budget and then in June adopts a formal resolution approving the needed appropriations for the coming operating year.
4. All transfers of budget amounts and any amendments to the formal Appropriation Act are approved by the Board of Education.
5. It is the Superintendent's responsibility to supervise and monitor the budget process. This is done by reviewing the monthly financial data and reporting and recommending any needed amendments to the Board of Education.
6. The budget is adopted on a basis consistent with generally accepted accounting principles.
7. The budgets presented in these financial statements are as originally adopted and as formally amended by the Board of Education.
8. All annual appropriations lapse at fiscal year-end.

***Excess of Expenditures over Appropriations in Budgeted Funds***

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended June 30, 2017, the School District was in compliance with the Act.

**NOTE C - CASH AND EQUIVALENTS**

At June 30, 2017, the School District's cash and equivalents include the following:

	<u>Cash and Equivalents</u>
Bank deposits	<u>\$ 1,022,526</u>

*Custodial Credit Risk - Deposits*

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk. As of June 30, 2017, the carrying amount of the School District's deposits for both governmental activities and fiduciary funds was \$1,022,526 and the bank balance was \$1,032,611. As of June 30, 2017, \$757,839 of the bank balance was exposed to custodial risk because it was uninsured and uncollateralized.

**NOTE D - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS AND UNEARNED REVENUE**

***Property Taxes Receivable, Unearned Revenue and Property Tax Calendar***

Property taxes are levied, billed and become a lien on property as of December 1 on the State taxable valuation of property in the School District as of the preceding December 31. Townships within the School District collect and remit taxes until February 15, at which time the uncollected real property taxes are turned over to the counties as delinquent. Delinquent real property taxes are funded by the counties and remitted to the School District. Delinquent personal property tax remains a receivable until collected from the taxpayer by the townships and remitted to the School District. In the governmental fund financial statements, if delinquent taxes are not paid within 60 days of year-end, they are recorded as deferred inflows of resources. In the district-wide financial statements, property taxes receivable and related revenue include all amounts due the School District regardless of when cash is received. Over time, substantially all property taxes are collected.

During the fiscal year, \$15.791 per \$1,000 of equalized non-principal residence property value in the School District of \$87 million and \$3.791 per \$1,000 of commercial personal property value in the School District of \$355 thousand was levied for general operating purposes. For debt service purposes, \$2 per \$1,000 of equalized principal, non-principal residence property and commercial personal property value in the School District of \$116.1 million was levied.

***Intergovernmental Receivables and Unearned Revenue***

Intergovernmental receivables are primarily comprised of amounts due from the State and Federal governments. Revenue is recorded as earned when eligibility requirements are met. Grant revenues deferred in the governmental fund financial statements include unearned revenue and deferred inflows - revenue received more than 60 days following year-end (unavailable to pay liabilities of the current period). Unearned revenue in the government-wide and the fund financial statements consist of categorical and other grant monies received but not yet earned at year-end.

NOTES TO FINANCIAL STATEMENTS - Continued

Amounts due from other governments at June 30, 2017 are as follows:

Due from State of Michigan - State Aid	\$ 65,081
Due from other	<u>3,649</u>
	<u>\$ 68,730</u>

Unearned revenue for the year ended June 30, 2017 is comprised of the following:

Vocational Education	<u>\$ 194,520</u>
----------------------	-------------------

**NOTE E - INVESTMENTS IN CAPITAL ASSETS**

Investments in capital assets consist of the following:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	<u>\$ 92,228</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 92,228</u>
Capital assets being depreciated				
Buildings and improvements	5,503,993	-	-	5,503,993
Furniture and fixtures	93,406	-	-	93,406
Vehicles	17,522	-	-	17,522
Equipment	<u>168,239</u>	<u>-</u>	<u>-</u>	<u>168,239</u>
Total capital assets being depreciated	5,783,160	-	-	5,783,160
Less accumulated depreciation	<u>(1,426,753)</u>	<u>(138,095)</u>	<u>-</u>	<u>(1,564,848)</u>
Total capital assets, net	<u>\$ 4,448,635</u>	<u>\$ (138,095)</u>	<u>\$ -</u>	<u>\$ 4,310,540</u>

Depreciation expense was charged to the function in the statement of activities, as follows:

Instruction	\$ 120,139
Support services	<u>17,956</u>
Total depreciation expense	<u>\$ 138,095</u>

**NOTE F - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

*Receivables and Payables*

Outstanding balances between funds reported as "due to/from other funds" include outstanding charges by one fund to another for services or goods, subsidy commitments outstanding at year-end and other miscellaneous receivables/payables between funds.

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Fund		
General Fund	\$ -	\$ 3,376
Agency Fund	<u>3,376</u>	<u>-</u>
	<u>\$ 3,376</u>	<u>\$ 3,376</u>

*Transfers and Payments*

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions or maintaining debt service on a routine basis. Resources are accumulated in a fund to support and simplify the administration of various projects or programs.

The district-wide statement of activities eliminates transfers as reported within the governmental activities column.

The following schedule reports transfers and payments within the reporting entity:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds		
General Fund	\$ -	\$ 5,774
2007 General Obligation Bond Fund	-	178,590
2016 Refunding Bond Fund	178,590	-
Non-Major Governmental Funds		
Food Service Fund	<u>5,774</u>	<u>-</u>
	<u>\$ 184,364</u>	<u>\$ 184,364</u>

NOTES TO FINANCIAL STATEMENTS - Continued

**NOTE G - LONG-TERM LIABILITIES**

Changes in long-term debt during the year ended June 30, 2017 were as follows:

	<u>Beginning Balance</u>	<u>New Debt</u>	<u>Payments/ Accretion</u>	<u>Ending Balance</u>	<u>Current Portion</u>
General obligation bonds	\$ 3,120,000	\$ 3,110,000	\$(3,120,000)	\$ 3,110,000	\$ 175,000
Discount on bonds payable	(28,926)	-	28,926	-	-
Premium on bonds payable	-	59,882	(3,743)	56,139	3,743
<b>Total long-term liabilities</b>	<u>\$ 3,091,074</u>	<u>\$ 3,169,882</u>	<u>\$(3,094,817)</u>	<u>\$ 3,166,139</u>	<u>\$ 178,743</u>

At June 30, 2017, the School District's long-term debt consisted of the following:

2016 Refunding Bonds due in annual installments through May 1, 2032; interest at 2.0% - 2.4% due semi-annually.	\$ 3,110,000
Unamortized bond premium	<u>56,139</u>
<b>Total long-term debt</b>	<u>\$ 3,166,139</u>

Total annual requirements to amortize bonds outstanding as of June 30, 2017 are as follows:

<u>Years Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 175,000	\$ 65,900	\$ 240,900
2019	180,000	62,400	242,400
2020	185,000	58,800	243,800
2021	190,000	55,100	245,100
2022	195,000	51,300	246,300
2023-2027	1,035,000	196,300	1,231,300
2028-2032	<u>1,150,000</u>	<u>82,200</u>	<u>1,232,200</u>
	<u>\$ 3,110,000</u>	<u>\$ 572,000</u>	<u>\$ 3,682,000</u>

Interest expense for the year ended June 30, 2017 was \$49,007 and interest paid was \$58,882.

***In-Substance Defeasance***

On July 7, 2016, the School District issued \$3,110,000 in general obligation refunding bonds with an average interest rate of 2.11% to extinguish \$2,985,000 of outstanding 2007 general obligation bonds with an average remaining interest rate of 3.97%. The escrow agent fully paid off the remaining outstanding 2007 general obligation bonds in the year ending June 30, 2017. The refunding was undertaken to lower interest costs and reduce the School District's annual debt service requirements.



## NOTES TO FINANCIAL STATEMENTS - Continued

The net proceeds of \$3,079,902 (after payment of expenses of \$59,004 for underwriters' premium, issuance costs and miscellaneous fees) plus \$13,000 from Debt Service Funds were deposited with an escrow agent to provide for redemption of the \$2,985,000 outstanding 2007 general obligations bonds.

The bond refunding decreases the School District's total debt service payments by \$439,394 over 17 years and yields an economic gain (the difference between the present value of the debt service payments on the old and new debt) of \$374,766.

### **NOTE H - RISK MANAGEMENT**

The School District carries commercial insurance for risks of loss, including property and employee health insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The School District participates in SET-SEG's risk management pools for worker's compensation claims, disability insurance and errors and omissions coverages. SET-SEG is a public entity risk pool currently operating as a common risk management and workers' compensation insurance program for various school districts throughout the State. The School District pays an annual premium for its workers' compensation insurance coverage. The pool is self-sustaining through member premiums and reinsures through commercial companies for claims in excess of \$500,000 for each insured event. Although the School District could be assessed charges beyond the annual premium, the likelihood of receiving such an assessment is minimal. Any refunds from SET-SEG are deposited in the School District's General Fund.

### **NOTE I - PENSION PLAN AND POST EMPLOYMENT BENEFITS**

#### ***Plan Description***

The Michigan Public School Employees' Retirement System ("MPERS") is a cost-sharing, multiple employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan ("State") originally created under Public Act 136 of 1945, recodified and currently operating under the provisions of Public Act 300 of 1980, as amended. Section 25 of this act establishes the Board's authority to promulgate or amend the provisions of the System. The Board consists of twelve members - eleven appointed by the Governor and the State Superintendent of Instruction, who serves as an ex-officio member.

The system is administered by the Office of Retirement Services ("ORS") within the Michigan Department of Technology, Management and Budget. The Department Director appoints the Office Director, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

The System's financial statements are available at [www.michigan.gov/mpers-cafr](http://www.michigan.gov/mpers-cafr).

***Benefits Provided***

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 300 of 1980, as amended, establishes eligibility and benefit provisions for the defined benefit ("DB") pension plan. Depending on the plan option selected, member retirement benefits are determined by final average compensation, years of service, and a pension factor ranging from 1.25% to 1.50%. DB members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides disability and survivor benefits to DB plan members.

A DB plan member who leaves Michigan public school employment may request a refund of his or her member contributions to the retirement system account if applicable. A refund cancels a former member's rights to future benefits. However, returning members who previously received a refund of their contributions may reinstate their service through repayment of the refund upon satisfaction of certain requirements.

***Regular Retirement***

The retirement benefit for DB and Pension Plus plan members is based on a member's years of credited service (employment) and final average compensation ("FAC"). The FAC is calculated based on the member's highest total wages earned during a specific period of consecutive calendar months divided by the service credit accrued during that same time period.

There is no mandatory retirement age.

***Defined Contribution Plan***

Employer contributions to the Plan are dependent on the plan elected by the participant.

***Contributions and Funded Status***

Employers are required by Public Act 300 of 1980, as amended, to contribute amounts necessary to finance the coverage of active and retired members. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability as of September 30, 2016 will be amortized over a 20 year period for the 2016 fiscal year.

NOTES TO FINANCIAL STATEMENTS - Continued

The schedule below summarizes pension contribution rates in effect for the Plan's fiscal year September 30, 2016:

Pension Contribution Rates		
Benefit Structure	Member	Employer
Basic	0.0-4.0%	18.95%
Member Investment Plan	3.0-7.0%	18.95%
Pension Plus	3.0-6.4%	17.73%
Defined Contribution	0.0%	14.56%

Required contributions to the pension plan from the School District were \$219,352 for the year ended September 30, 2016.

The School District's contributions to the MPSERS Defined Contribution Plan were \$12,458, for the year ended June 30, 2017, which is equal to the pension expense recognized by the School District for the year.

*Post-Employment Benefits*

Under the MPSERS Act, all retirees participating in the MPSERS Pension Plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10% of the monthly premium amount for the health, dental and vision coverages. Required contributions for post-employment health care benefits are included as part of the School District's total contribution to the MPSERS Plan discussed above.

***Pension Liabilities, Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

At June 30, 2017, the School District reported a liability of \$2,437,108 for its proportionate share of the MPSERS net pension liability. The net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation rolled forward from September 30, 2015. The School District's proportion of the net pension liability was determined by dividing each employer's statutorily required pension contributions to the system during the measurement period by the percent of pension contributions required from all applicable employees during the measurement period. At September 30, 2016, the School District's proportion was 0.00976829%, which was an increase of 0.00022260% from its proportion measured as of September 30, 2015.

NOTES TO FINANCIAL STATEMENTS - Continued

For the year ended June 30, 2017, the School District recognized pension expense of \$175,512. At June 30, 2017, the School District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 30,373	\$ 5,776
Changes of assumptions	38,102	-
Net difference between projected and actual earnings on pension plan investments	40,505	-
Changes in proportion and differences between School District contributions and proportionate share of contributions	41,553	185,531
School District contributions subsequent to the measurement date	<u>138,865</u>	<u>-</u>
Total	<u>\$ 289,398</u>	<u>\$ 191,307</u>

From the above table, \$138,865 reported as deferred outflows of resources related to pensions resulting from School District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as follows:

<u>Year Ended September 30,</u>	<u>Amount</u>
2017	\$ (37,583)
2018	(40,768)
2019	21,171
2020	<u>16,406</u>
	<u>(40,774)</u>

***Actuarial Assumptions***

Projection of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTES TO FINANCIAL STATEMENTS - Continued

Additional information as of the latest actual valuation follows:

*Summary of Actuarial Assumptions*

Valuation Date:	September 30, 2016
Actuarial Cost Method:	Entry Age, Normal
Wage Inflation Rate:	3.5%
Investment Rate of Return:	
MIP and Basic Plans (Non-Hybrid):	8.0%
Pension Plus Plan (Hybrid):	7.0%
Projected Salary Increases:	3.5-12.3%, including wage inflation at 3.5%
Cost-of-Living Pension Adjustments:	3% Annual Non-Compounded for MIP Members
Mortality:	RP-2000 Male and Female Combined Healthy Life Mortality Tables, adjusted for mortality improvements to 2025 using projection scale BB. This assumption was first used for the September 30, 2014 valuation of the System. For retirees, 100% of the table rates were used. For active members, 80% of the table rates were used for males and 70% of the table rates were used for females.

Notes:

- Assumption changes as a result of an experience study for the period 2007 through 2012 have been adopted by the System for use in the annual pension valuations beginning with the September 30, 2014 valuation. The total pension liability as of September 30, 2016, is based on the results of an actuarial valuation date of September 30, 2015, and rolled forward using generally accepted actuarial procedures, including the experience study.
- Recognition period for liabilities is the average of the expected remaining service lives of all employees in years: 4.6273 for non-university employers
- Recognition period for assets is 5 years.
- Full actuarial assumptions are available in the 2016 MPSERS Comprehensive Annual Financial Report ([www.michigan.gov/mpsers-cafr](http://www.michigan.gov/mpsers-cafr)).

***Long-Term Expected Rate of Return on Investments***

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2016, are summarized in the following table:

Investment Category	Target Allocation	Long-Term Expected Real Rate of Return*
Domestic Equity Pools	28.0 %	5.9 %
Alternative Investment Pools	18.0	9.2
International Equity	16.0	7.2
Fixed Income Pools	10.5	0.9
Real Estate and Infrastructure Pools	10.0	4.3
Absolute Return Pools	15.5	6.0
Short-Term Investment Pools	2.0	0.0
	100.0 %	

\*Long-term rate of return does not include 2.1% inflation.

***Discount Rate***

A discount rate of 8.0% was used to measure the total pension liability (7.0% for the Pension Plus plan, a hybrid plan provided through non-university employers only). This discount rate was based on the long term expected rate of return on pension plan investments of 8.0% (7.0% for the Pension Plus plan). The projection of cash flows used to determine this discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of the School District's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate***

The following presents the School District's proportionate share of the net pension liability calculated using the discount rate of 8.0% (7.0% for the Hybrid Plan), as well as what the School District's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher:

1% Decrease (Non-Hybrid/Hybrid) (7.0% / 6.0%)	Current Single Discount Rate Assumption (Non-Hybrid/Hybrid) (8.0% / 7.0%)	1% Increase (Non-Hybrid-Hybrid) (9.0% / 8.0%)
\$3,138,382	\$2,437,108	\$1,845,867

***Michigan Public School Employees' Retirement System ("MPERS") Fiduciary Net Position***

Detailed information about the pension plan's fiduciary net position is available in the separately issued MPERS Comprehensive Annual Financial Report ("CAFR") available at: <http://michigan.gov/mpers-cafr>

***Payables to the Michigan Public School Employees' Retirement System ("MPERS")***

The School District reported \$39,457 and \$6,044 payable to the plan at June 30, 2017 for legally required defined benefit and defined contribution plan contributions, respectively.

**NOTE J - COMMITMENTS AND CONTINGENCIES**

***Federal and State Grants***

In the normal course of operations, the School District receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authorities, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

***Collectively Bargained Employment Agreements***

The teachers of the School District are organized under the Beaver Island Education Association. The Board of Education and the Beaver Island Education Association have a contract through August 31, 2017.

**REQUIRED SUPPLEMENTARY INFORMATION**



## Beaver Island Community School

### BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

Year Ended June 30, 2017

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Positive (Negative)	
	Original	Final		Original to Final Budget	Final Budget To Actual
Revenues					
Local sources	\$ 1,668,130	\$ 1,688,917	\$ 1,685,851	\$ 20,787	\$ (3,066)
State sources	318,548	369,416	369,416	50,868	-
Federal sources	70,318	62,592	62,586	(7,726)	(6)
Total revenues	<u>2,056,996</u>	<u>2,120,925</u>	<u>2,117,853</u>	<u>63,929</u>	<u>(3,072)</u>
Expenditures					
Education					
Instruction	1,371,467	1,360,068	1,343,785	11,399	16,283
Supporting services	801,344	824,295	799,370	(22,951)	24,925
Community services	800	716	715	84	1
Total expenditures	<u>2,173,611</u>	<u>2,185,079</u>	<u>2,143,870</u>	<u>(11,468)</u>	<u>41,209</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	(116,615)	(64,154)	(26,017)	52,461	38,137
Other financing uses					
Operating transfers out	<u>(14,500)</u>	<u>(6,036)</u>	<u>(5,774)</u>	<u>8,464</u>	<u>262</u>
<b>REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES</b>	(131,115)	(70,190)	(31,791)	60,925	38,399
Fund balance, beginning of year	<u>621,404</u>	<u>621,404</u>	<u>621,404</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 490,289</u></u>	<u><u>\$ 551,214</u></u>	<u><u>\$ 589,613</u></u>	<u><u>\$ 60,925</u></u>	<u><u>\$ 38,399</u></u>

## Beaver Island Community School

### SCHEDULE OF SCHOOL DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

#### Michigan Public School Employees Retirement Plan

	<u>9/30/2016</u>	<u>9/30/2015</u>	<u>9/30/2014</u>
School District's proportion of collective net pension liability	0.00976829 %	0.00954569 %	0.01090000 %
School District's proportionate share of net pension liability	\$ 2,437,108	\$ 2,331,537	\$ 2,401,241
School District's covered-employee payroll	855,271	792,246	932,670
School District's proportionate share of net pension liability as a percentage of covered-employee payroll	284.95 %	294.29 %	257.46 %
Plan fiduciary net position as a percentage of total pension liability	63.27 %	63.17 %	66.20 %

### SCHEDULE OF SCHOOL DISTRICT'S PENSION CONTRIBUTIONS

#### Michigan Public School Employees Retirement Plan

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
Statutorily required employer contributions	\$ 176,456	\$ 158,763	\$ 188,872
School District contributions made to the Plan	176,456	158,763	188,872
Contributions deficiency (excess)	\$ -	\$ -	\$ -
School District's covered-employee payroll	\$ 971,678	\$ 817,450	\$ 838,573
Contributions as a percentage of covered-employee payroll	18.16 %	19.42 %	22.52 %

Change of benefit terms: There were no changes of benefit terms in 2016.

Change of assumptions: There were no changes of benefit assumptions in 2016.

**COMBINING FINANCIAL STATEMENTS OF  
NON-MAJOR GOVERNMENTAL FUNDS**

# Beaver Island Community School

## COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2017

	<u>Food Service Fund</u>	<u>Sinking Fund</u>	<u>Total Non-Major Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,245	\$ -	\$ 2,245
Due from other governments	<u>191</u>	<u>-</u>	<u>191</u>
Total assets	<u><u>\$ 2,436</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,436</u></u>
<b>FUND BALANCES</b>			
Restricted for food service	<u><u>\$ 2,436</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,436</u></u>

## Beaver Island Community School

### COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS

Year Ended June 30, 2017

	<u>Food Service Fund</u>	<u>Sinking Fund</u>	<u>Total Non-Major Governmental Funds</u>
Revenues			
Local sources			
Charges for services	\$ 2,188	\$ -	\$ 2,188
Interest	1	-	1
State sources	774	-	774
Federal sources	<u>7,249</u>	<u>-</u>	<u>7,249</u>
Total revenues	<u>10,212</u>	<u>-</u>	<u>10,212</u>
Expenditures			
Food service	16,649	-	16,649
Other	<u>-</u>	<u>1,621</u>	<u>1,621</u>
Total expenditures	<u>16,649</u>	<u>1,621</u>	<u>18,270</u>
<b>REVENUES UNDER EXPENDITURES</b>	(6,437)	(1,621)	(8,058)
Other financing sources			
Operating transfers in	<u>5,774</u>	<u>-</u>	<u>5,774</u>
<b>REVENUES UNDER EXPENDITURES AND OTHER FINANCING SOURCES</b>	(663)	(1,621)	(2,284)
Fund balance, beginning of year	<u>3,099</u>	<u>1,621</u>	<u>4,720</u>
Fund balance, end of year	<u><u>\$ 2,436</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,436</u></u>



DENNIS, GARTLAND & NIERGARTH

Certified Public Accountants  
Business Advisors

Thomas E. Gartland, Retired  
Brad P. Niergarth, CPA  
James G. Shumate, CPA  
Robert C. Thompson, CPA  
Michael D. Shaw, CPA  
Mary F. Krantz, CPA  
Shelly K. Bedford, CPA  
Heidi M. Wendel, CPA  
Shelly A. Ashmore, CPA  
James M. Taylor, CPA

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education  
Beaver Island Community School

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of **Beaver Island Community School** (the "School District") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the School District's basic financial statements, and have issued our report thereon dated September 18, 2017.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the School District's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the School District's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Dennis, Gartland & Niergarth*

September 18, 2017